

**DISMAS, INC.  
FINANCIAL STATEMENTS,  
SUPPLEMENTAL INFORMATION  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2006 AND 2005**

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# BLANKENSHIP CPA GROUP, PLLC

CHARTERED ACCOUNTANTS • CERTIFIED FINANCIAL PLANNERS AND CONSULTANTS

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Dismas, Inc.

We have audited the accompanying statements of financial position of Dismas, Inc., as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of Dismas, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dismas, Inc., as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information on pages 10-14 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Blankenship CPA Group, PLLC*

January 12, 2007

DISMAS, INC.  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2006 AND 2005

**ASSETS**

	2006	2005
CURRENT ASSETS		
Cash	\$ 164,022	\$ 53,053
Accounts receivable	16,308	6,254
Prepaid expenses	<u>6,883</u>	<u>-</u>
Total Current Assets	187,213	59,307
PROPERTY AND EQUIPMENT, net	<u>282,970</u>	<u>342,041</u>
TOTAL ASSETS	<u><u>\$ 470,183</u></u>	<u><u>\$ 401,348</u></u>

**LIABILITIES AND NET ASSETS**

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 9,451	\$ 7,367
Line of credit	<u>-</u>	<u>10,000</u>
Total Liabilities	9,451	17,367
UNRESTRICTED NET ASSETS	<u>460,732</u>	<u>383,981</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 470,183</u></u>	<u><u>\$ 401,348</u></u>

The accompanying notes are an integral part of these financial statements.

**DISMAS, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Revenues and other support:		
Fundraising events	\$ 126,025	\$ 92,135
Other grants	114,775	114,518
State grants	103,500	105,634
Contributions	94,890	76,596
Program service fees	79,205	114,850
Miscellaneous income	<u>5,093</u>	<u>13,587</u>
Total revenues and other support	<u>523,488</u>	<u>517,320</u>
Expenses:		
Program services	402,943	434,569
Management and general	58,346	102,946
Fundraising	<u>72,361</u>	<u>44,793</u>
Total expenses	<u>533,650</u>	<u>582,308</u>
Decrease in net assets from continuing operations	<u>(10,162)</u>	<u>(64,988)</u>
Discontinued operations (Note 4)	<u>86,913</u>	<u>-</u>
Increase (decrease) in net assets	76,751	(64,988)
Net assets:		
BEGINNING OF THE YEAR	<u>383,981</u>	<u>448,969</u>
END OF THE YEAR	<u><u>\$ 460,732</u></u>	<u><u>\$ 383,981</u></u>

The accompanying notes are an integral part of these financial statements.

DISMAS, INC.  
STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED JUNE 30, 2006 AND 2005

	2006				2005			
	Program Services	Management and General	Fundraising	Total	Program Services	Management and General	Fundraising	Total
Salaries and benefits	\$ 194,770	\$ 36,520	\$ 12,173	\$ 243,463	\$ 212,473	\$ 57,538	\$ -	\$ 270,011
Fundraising events	-	-	59,226	59,226	-	-	44,793	44,793
Groceries	41,694	-	-	41,694	41,779	-	-	41,779
Utilities	34,983	-	-	34,983	50,558	2,688	-	53,246
Maintenance	30,668	-	-	30,668	20,559	-	-	20,559
Insurance	22,827	5,356	-	28,183	5,803	25,957	-	31,760
Depreciation	21,298	833	-	22,131	30,833	-	-	30,833
Professional fees	9,356	8,100	-	17,456	4,367	8,100	-	12,467
Payroll taxes	13,158	2,467	822	16,447	14,671	2,979	-	17,650
Travel	8,459	1,238	-	9,697	8,708	1,395	-	10,103
Office supplies	8,354	334	-	8,688	10,080	1,265	-	11,345
Telephone, cable and newspaper	5,744	1,634	-	7,378	6,950	2,028	-	8,978
Materials	4,361	-	-	4,361	5,851	-	-	5,851
Miscellaneous	2,885	1,154	-	4,039	13,702	201	-	13,903
Postage	2,525	140	140	2,805	1,870	-	-	1,870
Staff training	672	530	-	1,202	612	-	-	612
Purchased services	1,062	-	-	1,062	5,738	-	-	5,738
Taxes, licenses and fees	127	40	-	167	15	795	-	810
	<u>\$ 402,943</u>	<u>\$ 58,346</u>	<u>\$ 72,361</u>	<u>\$ 533,650</u>	<u>\$ 434,569</u>	<u>\$ 102,946</u>	<u>\$ 44,793</u>	<u>\$ 582,308</u>

The accompanying notes are an integral part of these financial statements.

**DISMAS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 76,751	\$ (64,988)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Gain on sale of building and equipment	(111,208)	-
Depreciation	23,512	30,833
(Increase) decrease in accounts receivable	(10,054)	3,053
Increase in prepaid expenses	(6,883)	-
Increase in accounts payable and accrued liabilities	<u>2,084</u>	<u>5,533</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(25,798)</u>	<u>(25,569)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of building and equipment	157,229	-
Property and equipment purchases	<u>(10,462)</u>	<u>(25,237)</u>
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>146,767</u>	<u>(25,237)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) on line of credit	<u>(10,000)</u>	<u>10,000</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(10,000)</u>	<u>10,000</u>
NET INCREASE (DECREASE) IN CASH	110,969	(40,806)
CASH, BEGINNING OF THE YEAR	<u>53,053</u>	<u>93,859</u>
CASH, END OF THE YEAR	<u><u>\$ 164,022</u></u>	<u><u>\$ 53,053</u></u>

The accompanying notes are an integral part of these financial statements.

**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of Dismas, Inc. is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of Dismas, Inc.'s management who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Nature of Activities

Dismas, Inc. is an affiliated group of half-way houses that offer a supportive community for men and women newly released from prison who have no family or who fear that a return to their former surroundings might lead to their return to lawbreaking. Dismas, Inc. also serves, on a limited basis, as a supervised residence for offenders participating in program alternatives to incarceration. Dismas, Inc. also serves as a residence for university students. Together with community volunteers and other residents, they form a welcoming environment for newly released prisoners.

Basis of Accounting

The financial statements of Dismas, Inc. have been prepared on the accrual basis of accounting.

Basis of Presentation

Dismas, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Dismas, Inc. follows the policy of reporting donor-imposed restricted contributions whose restrictions are met in the same year as revenues in the unrestricted net asset class.



**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Property and Equipment

Property and equipment are reported at cost and include improvements that significantly add to utility or extend useful lives and exceed \$500. Costs of maintenance and repairs are charged to expense as incurred. Assets are depreciated using a straight-line basis to allocate cost over their estimated useful lives of 5-7 years for vehicles, furniture and equipment and over 27.5 years for buildings and improvements. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in income for the period. A gain on trade-in is applied to reduce the cost of the new acquisition.

Long-Lived Assets

The Organization periodically reviews the values assigned to long-lived assets to determine if any impairments are other than temporary. Management believes that the long-lived assets in the statements of financial position are appropriately valued.

Income Tax

Dismas, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code; accordingly, no provision for income tax has been made in the financial statements.

Cash and Cash Equivalents

For purposes of the statements of cash flows, Dismas, Inc. considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consist of the following at June 30:

	2006	2005
Land	\$ 44,200	\$ 57,200
Buildings and improvements	475,170	650,265
Furniture and equipment	119,863	134,747
Vehicles	<u>9,234</u>	<u>4,300</u>
	648,467	846,512
Less accumulated depreciation	<u>(365,497)</u>	<u>(504,471)</u>
Net property and equipment	<u>\$ 282,970</u>	<u>\$ 342,041</u>

**NOTE 3 - LINE OF CREDIT**

The Organization has a \$100,000 line of credit secured by real estate with a local bank that has a variable interest rate that equals the prime rate. As of June 30, 2006 the rate was 8%. The line of credit will expire on June 5, 2007 unless it is renewed. The outstanding balance was \$0 and \$10,000 at June 30, 2006 and 2005, respectively.

**NOTE 4 - DISCONTINUED OPERATIONS**

On March 1, 2006, the Organization sold the house in Memphis, Tennessee. The sales price was \$170,000 of which \$157,229 was deposited into the Organization's bank account after the deduction of direct selling expenses resulting in a gain on sale of \$111,208.

	Memphis, Tennessee	Revenues	Net Loss	Gain on Disposal
2006		<u>\$ 8,973</u>	<u>\$ (24,295)</u>	<u>\$111,208</u>

**DISMAS, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2006 AND 2005**

**NOTE 5 - COMMITMENTS AND CONTINGENCIES**

The Organization receives a substantial amount of its support and revenues from government agencies. A significant reduction in the level of this support, if this were to occur, may have an effect on the Organization's programs and activities. In addition, the funding received by the Organization from governmental agencies is subject to audit and retroactive adjustment.

**NOTE 6 - EMPLOYEE BENEFIT PLAN**

The Organization sponsors a 401(k) savings incentive match plan, which covers substantially all full-time employees of the Organization. The Organization is obligated to contribute up to a 3% match limited to the respective participating employees' salary deferral amounts in each fiscal year. The Organization contributed \$2,127 and \$3,161 in 2006 and 2005 in accordance with the terms of the plan.

**SUPPLEMENTAL INFORMATION**

DISMAS, INC.  
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES  
UPPER CUMBERLAND HOUSE  
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
REVENUES AND OTHER SUPPORT		
Other grants	\$ 58,415	\$ 16,494
Program service fees	15,550	15,110
Contributions	14,763	5,096
Fundraising events	7,638	8,498
Miscellaneous	-	5,925
State grants	-	1,966
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Total Revenues and Other Support	96,366	53,089
EXPENSES		
Salaries	35,091	37,406
Groceries	12,281	7,024
Depreciation	10,796	-
Maintenance	10,573	5,114
Insurance	6,458	3,981
Utilities	5,763	7,018
Travel	4,536	439
Office supplies	3,647	710
Fundraising events	3,486	1,356
Telephone, cable and newspaper	2,878	3,342
Payroll taxes	2,677	2,539
Professional fees	1,861	-
Miscellaneous	1,033	57
Postage	197	454
Materials	154	823
Staff training	45	-
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Total Expenses	101,476	70,263
	<hr/>	<hr/>
Decrease in Net Assets	\$ (5,110)	\$ (17,174)

DISMAS, INC.  
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES  
NASHVILLE HOUSE  
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
REVENUES AND OTHER SUPPORT		
Other grants	\$ 35,408	\$ 63,378
Fundraising events	35,082	-
Program service fees	32,437	30,226
Contributions	32,089	26,886
Miscellaneous income	242	513
	<u>135,258</u>	<u>121,003</u>
Total Revenues and Other Support		
EXPENSES		
Salaries	76,269	71,587
Fundraising events	21,286	-
Utilities	19,670	20,294
Maintenance	13,278	5,506
Groceries	11,035	13,289
Insurance	6,911	-
Depreciation	6,673	-
Payroll taxes	4,915	4,675
Professional fees	3,327	-
Postage	1,557	-
Travel	353	957
Miscellaneous	320	567
Office supplies	17	3,598
Materials	-	4,865
Special house events	-	701
	<u>165,611</u>	<u>126,039</u>
Total Expenses		
Decrease in Net Assets	<u>\$ (30,353)</u>	<u>\$ (5,036)</u>

DISMAS, INC.  
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES  
MICHIANA HOUSE  
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
REVENUES AND OTHER SUPPORT		
Fundraising events	\$ 59,422	\$ 35,303
Contributions	48,038	36,289
Program service fees	31,218	27,007
Other grants	20,952	34,646
Miscellaneous income	3,678	5,215
State grants	-	168
	<hr/>	<hr/>
Total Revenues and Other Support	163,308	138,628
	<hr/>	<hr/>
EXPENSES		
Salaries	86,210	72,710
Fundraising events	23,811	22,970
Groceries	18,378	14,786
Utilities	9,550	6,718
Insurance	9,458	2,755
Maintenance	6,817	4,921
Payroll taxes	5,707	4,794
Office supplies	4,690	2,755
Materials	4,207	163
Professional fees	4,168	-
Depreciation	3,829	-
Travel	3,570	5,635
Telephone, cable and newspapers	2,866	3,277
Miscellaneous	1,532	519
Purchased services	1,062	2,541
Postage	893	1,264
Staff training	627	419
Taxes, licenses and fees	127	-
Computer maintenance	-	969
Special house events	-	25
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Total Expenses	187,502	147,221
	<hr/>	<hr/>
Decrease in Net Assets	\$ (24,194)	\$ (8,593)
	<hr/>	<hr/>

DISMAS, INC.  
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES  
MEMPHIS HOUSE  
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
REVENUES AND OTHER SUPPORT		
Program service fees	\$ 7,722	\$ 42,507
Contributions	1,251	3,084
Miscellaneous income	-	1,191
Fundraising events	-	-
	<u>8,973</u>	<u>46,782</u>
Total Revenues and Other Support		
EXPENSES		
Salaries	14,808	40,874
Utilities	6,422	16,758
Insurance	4,306	-
Maintenance	3,339	3,178
Groceries	1,433	6,525
Depreciation	1,381	-
Payroll taxes	861	2,663
Miscellaneous	346	2,602
Travel	228	1,877
Postage	145	111
Office supplies	-	3,709
	<u>33,268</u>	<u>78,297</u>
Total Expenses		
Discontinued Operations - Gain on Sale of Assets (Note 4)	<u>111,208</u>	<u>-</u>
Increase (decrease) in Net Assets	<u>\$ 86,913</u>	<u>\$ (31,515)</u>



DISMAS, INC.  
SCHEDULES OF OPERATING ACTIVITIES FOR DISMAS HOUSES  
DISMAS, INC.  
YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
REVENUES AND OTHER SUPPORT		
State grants	\$ 103,500	\$ 103,500
Fundraising events	23,883	48,334
Miscellaneous income	1,173	743
Contributions	<u>-</u>	<u>5,241</u>
Total Revenues and Other Support	<u>128,556</u>	<u>157,818</u>
EXPENSES		
Salaries	45,893	57,538
Fundraising events	10,643	20,449
Professional fees	8,100	8,100
Insurance	5,356	25,957
Payroll taxes	3,148	2,979
Telephone, cable and newspapers	1,634	2,028
Travel	1,238	-
Miscellaneous	1,154	201
Depreciation	833	30,833
Training	530	-
Office supplies	335	1,265
Postage	158	-
Taxes, licenses and fees	40	795
Consulting	-	6,260
Rent	-	2,688
Meetings expense	<u>-</u>	<u>1,395</u>
Total Expenses	<u>79,062</u>	<u>160,488</u>
Increase (decrease) in Net Assets	<u>\$ 49,495</u>	<u>\$ (2,670)</u>